

ANNUAL REPORT 1996



KILO GOLD MINES LTD.

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ANNUAL GENERAL MEETING

The Annual Meeting of the shareholders of Kilo Gold Mines Ltd. will be held at 4:00 p.m., June 25, 1997 at the:

Laurel Point Inn

680 Montreal St.

Victoria, British Columbia

V8V 1Z8

Phone (604) 386-8721

All shareholders and others interested in the affairs of the company are welcome to attend.

1996 HIGHLIGHTS

January

Kilo enters into an agreement whereby Proprietary Energy Industries Inc. (ASE-PPI) exchanges a 25 per cent interest in 2,582.5 acres of its Sunset Lake Property in the North West Territories to earn a 25 per cent working interest in Kilo's Johnson Valley Property in California.

February

Kilo announces the completion of a private placement of 320,000 common shares at \$0.75 per share with an attached warrant at \$.90 for total proceeds of \$240,000.

Operating from its head office in Calgary, Alberta,

CORPORATE PROFILE

Kilo Gold Mines Ltd. is currently involved in a number of promising plays. Historically, much attention has been focused on the Johnson Valley project in southern California. The uneconomic results of a drilling program and feasibility study performed on the property by Henkle & Associates released in August of 1996, however, vindicates management's prior decision to shift the company's focus towards the generation of conventional hard-rock and placer mining prospects. In this regard, Kilo is currently working to acquire and develop a portfolio of prospective conventional mining properties in Canada, the United States and South America and, in so doing, is diligently pursuing its long-term goal to become a fully operational precious and base metals producer.

February

Solid Resources Ltd. (SRW-ASE) reports favorable drilling results on its Hart Property, located on trend and immediately adjacent to the Sunset Lake Property in the North West Territories.

April

A 20 ton bulk sample and drilling program is conducted on the Johnson Valley Property.

August

The results of the drilling program and assay audit on Johnson Valley, prepared by Henkle & Associates of Carson City, Nevada are released. The report concludes that the property is uneconomic.

December

The Kilo Board votes to curtail further exploration/expenditures on the Johnson Valley property and to concentrate its efforts on conventional mining properties.

1996 WAS A CHALLENGING YET FRUITFUL YEAR for Kilo Gold Mines Ltd. In January, the company struck a favorable agreement with Proprietary Energy Industries Inc. involving the exchange of a 25 per cent working

REPORT TO SHAREHOLDERS interest in Kilo's Johnson Valley

Property in California for a 25 per cent interest in 2,582.5 acres of Proprietary's Sunset Lake Property in the North West Territories.

From the outset, Kilo has devoted considerable time and attention towards development of the Johnson Valley project. In August, however, the uneconomic results of a drilling program, assay audit, and economic evaluation conducted by Henkle & Associates, vindicated the company's shift in focus towards the acquisition and development of a portfolio of prospective conventional mining properties in Canada, the United States and South America. In the meantime, however, Kilo and Proprietary will continue to participate in any upside on the Johnson Valley project by retaining the site production permit and by farming out their claims in exchange for a 10 per cent Net Smelter Royalty on all production and a one year work commitment.

Kilo's change in focus will have important positive spin-offs for the company freeing it up to concentrate on existing projects while seeking out promising new ones. In this regard, Kilo is cautiously optimistic that there is potential for a commercial mine in the volcanogenic-polymetallic, massive sulfide prospect at its Sunset Lake project in the North West Territories. In addition to the considerable amount of work conducted by Solid Resources Ltd., two public mining companies are currently scheduled to begin a drilling program on lands adjacent to the project this summer. As 1997 unfolds, Kilo also plans to launch an Induced Polarity Survey on the area in preparation for a possible diamond drilling program.

The company's Wild Irishman prospect, consisting of an assembly of unpatented mining claims in Grant County, New Mexico, also holds promise. While geological work has been of a reconnaissance scale only, results support the establishment of a small to medium size open pit silica flux mine with excellent opportunities

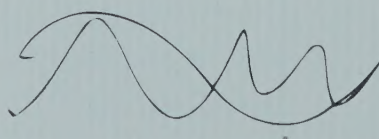
for the recovery of gold, silver, and copper in economic quantities. The company is now in the process of negotiating to acquire the results of a limited but anomalous drilling program, conducted 20 years ago in the immediate area. These results should provide significant additional data in support of our future work in the area.

In recent months, Kilo has undertaken preliminary due diligence on a large and interesting prospect located in the Divide Mining District of Esmeralda County, Nevada. A drilling program may be initiated should the results of our due diligence warrant such action.

Favorable results of some preliminary geological and geophysical work performed on a gold and copper exploration prospect in Peru have led to ongoing discussions with the claim owner to acquire a fifty per cent interest in the property. Kilo is also involved in negotiations to participate in the exploration and evaluation of a large block of claims in Suriname. The claims are in a recognized gold producing area and the operator has established close ties with key government officials who want to stimulate economic development through mining. In the near future, the company should also be in a position to announce details of its participation in a Bolivian gold property with an extensive mining history.

Subsequent to year end, Mr. Thor Gauti and Mr. Marten Rosch resigned from Kilo's Board to pursue other business opportunities. The Board would like to thank them for their years of service and support.

Overall, 1996 has been a productive year and it is management's view that, despite the challenges, we have made progress towards achieving our long-term goal of becoming a precious and base metals producer.



Peter J. Workum
President
April 24, 1997

JOHNSON VALLEY PROJECT

San Bernardino County California

Kilo began the year with a 75 per cent working interest in Johnson Valley. Located between two mountain ranges in San Bernardino County, California, the property appeared to contain variable quantities of gold and platinum exposed through millions of years of erosion.

Results of grab samples, processed at various sites and labs through four different extraction methods, were released in February. These tests yielded an average of 0.150 oz of gold per ton and 0.096 oz of silver per ton. These anomalous results spurred the initiation of an independent 20 ton bulk sampling program in April in accord with USBLM Technical Bulletin #4 "Placer Examination – Principles and Practice".

The entire procedure, including the procurement of benchmark fire assays and assay audits, was documented by the independent geological consulting firm of Henkle & Associates of Carson City, Nevada. A complete geological report, released by Henkle & Associates in August, reported that "using industry standard methods to evaluate the claims, we concluded that the test area deposit contained sub-economic recoverable precious metal values – although low grade primary copper/gold/silver sulfide mineralization is present in the bedrock near and under the site – it appears that the tenor is too low and the metallurgy too complex to be economic to mine at this time."

In consequence of these findings, Kilo has entered into an agreement which converted its original working interest into a Net Smelter Royalty.

REVIEW OF OPERATIONS



Using industry
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we concluded that
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recoverable precious
metal values.



SUNSET LAKE PROJECT

Yellowknife North West Territories

Kilo holds a 25 per cent interest in the Sunset Lake project, consisting of a number of claims totaling 2,582.5 acres, located 65 miles northeast of Yellowknife immediately adjacent to Solid Resources Ltd.'s (SRW-ASE) Hart property.

In 1987, the Aber-Hemisphere Sunrise Exploration Program identified two million tons grading 0.028 oz. gold/ton; 11.8 oz. silver/ton; 8.9 per cent zinc and 4.2 per cent lead on claims adjacent to the Hart property. These results represent less than 1/10 of the aerial extent of the homogeneous surface anomalies existing on the Hart property which also displays significantly stronger electro-magnetic signatures than those characterizing the Aber-Hemisphere property. The significance of Solid Resources' results is

that all currently available geological/geophysical/geochemical data indicate that the anomalies being drilled on the Hart property continue through the Sunset Lake property.

In February, Solid Resources Ltd. announced results of its ongoing diamond drilling program. Their "M Zone" discovery, a massive polymetallic sulphide deposit, reported average ore grades of 9.84 opt silver, 5.22 per cent zinc, 2.26 per cent lead and 0.02 opt gold. Mineral reserve estimates have been increased to 1.2 million tons as a result of a recently completed independent geological evaluation. These assay values are similar to Aber Resources Ltd.'s Sunrise Lake deposit. Aber Resources Ltd. has a large block of adjacent claims staked and indications are that they intend to commence a drilling program in 1997.

As a result of these findings, Kilo and Proprietary plan to launch an Induced Polarity Survey of the area. Survey results and geological mapping will lay the ground work for a potential diamond drilling program.

Management is optimistic that the continued addition of resources to this area's existing 1.8 million tons of commercial grade reserves has excellent potential to lead to the establishment of a commercial mine in the future.

SIMILKAMEEN, OSOYOOS, ALBERNI MINING DISTRICTS

British Columbia Canada

Kilo holds a 100 per cent interest in claims covering a total of 4,786 acres in the Similkameen, Osoyoos and Alberni mining districts in British Columbia. Turn of the century mining activities and recent exploration and sampling studies have identified over 10,000 feet of three foot wide gold and silver bearing vein complexes that are open along strike at surface. Eight initial fire assays on the Slocan area claims have yielded 0.068 oz. gold/ton and 40.863 oz silver/ton.

With a view to expediting work on the Slocan claims, while maintaining its focus on other properties, Kilo has entered into a Purchase & Sale Agreement with Skylark Ranger Resources Ltd., whereby Kilo will receive 500,000 common shares and \$100,000 cash while retaining a three per cent NSR (Net Smelter Royalty) due and payable upon the receipt of production proceeds. The shares will be escrowed and subject to a three year hold period pursuant to ASE regulations.



Turn of the
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WILD IRISHMAN PROJECT

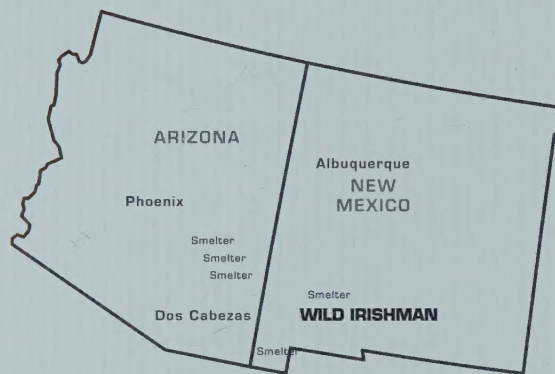
Grant Co., New Mexico

Kilo holds a 25 per cent interest in the Grant County Wild Irishman claims. The Wild Irishman prospect consists of a number of unpatented mining claims located in Grant Co., New Mexico, near the Tyrone open pit copper mine. The claims overlie, and are adjacent to, a massive quartz/calcite/barite epithermal vein system. Over two miles of strike on the vein system which outcrops along Sprouse-Copeland Fault Zone were staked.

While Kilo's geological work has been of a reconnaissance scale only, results continue to support the establishment of a small to medium sized open pit silica flux mine.

In 1997, geological and topographical mapping and a reconnaissance drilling program will be undertaken to further evaluate the potential of this prospect. The fact that the claims are held by the company and its partner and can be mined free from royalty, increases the economic attractiveness of this prospect.

Kilo is undertaking the acquisition of additional claims in the immediate area, a portion of which is subject to a drilling program conducted by a major American mining company. The results of this drilling program are the subject of a conditional offer to purchase by Kilo and Proprietary and would appear to support further due diligence, claim staking and acquisitions in the area. It is our intention to continue to develop this prospect with a view towards conducting a drilling program by year end if the outcome of our due diligence supports this action.



**In 1997, geological
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KILO HAS UNDERTAKEN
PRELIMINARY DISCUSSIONS with
Proprietary Energy Industries Inc., its partner
in the Wild Irishman and Sunset Lake
properties, with a view towards consolidating
both companies' mining interests in Kilo.
Now that many of the more onerous front-
end costs have been shared, it would seem
that a variety of benefits could be derived by
both Kilo and Proprietary as a result of this
kind of transaction. Management of both
parties expect to be in a position to
announce their intentions by the fall of 1997.

CORPORATE ACTIVITIES

In the near future,
the company should
be in a position to
announce details of
its participation in a
Bolivian gold property
with an extensive
mining history.

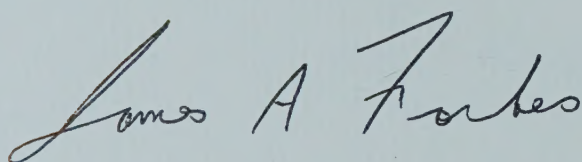
To The Shareholders of Kilo Gold Mines Ltd.:

I have audited the consolidated balance sheet of Kilo Gold Mines Ltd. as at December 31, 1996, and the consolidated statements of loss and deficit and cash flows for the year then ended.

These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and the results of its operations and the changes in its financial position for the year ended in accordance with generally accepted accounting principles.



James A. Forbes
Chartered Accountant

Calgary, Alberta, Canada
April 24, 1997

As at December 31, 1996

ASSETS

	1996	1995
Current assets		
Cash and term deposits	\$ 224,346	\$ 8,748
Accounts receivable	81,931	3,113
	306,277	11,861
Fixed assets - net	7,564	12,332
Mineral Properties (note 3)	451,931	921,421
	\$ 765,772	\$ 945,614

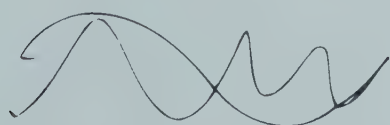
LIABILITIES**Current liabilities**

Accounts payable and accrued liabilities	\$ 25,947	\$ 39,498
Provision for future site restoration costs	20,000	—
Due to directors	—	12,145
	45,947	51,643

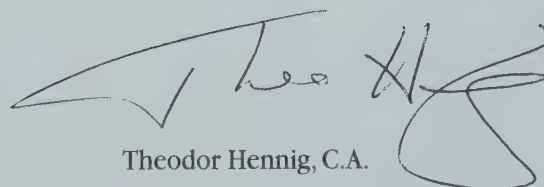
SHAREHOLDERS' EQUITY

Share capital (note 4)	2,913,283	2,047,805
Deficit	(2,193,458)	(1,153,834)
	719,825	893,971
	\$ 765,772	\$ 945,614

Approved by the board:



Peter J. Workum
Director



Theodor Hennig, C.A.
Director

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

Kilo Gold Mines Ltd.

*For the year ended December 31, 1996***ADMINISTRATIVE EXPENSES**

	1996	1995
Automobile	\$ —	\$ 4,388
Consulting fees	121,186	18,441
Depreciation	2,114	4,859
Investor and public relations	99,092	49,071
Listing and filing fees	4,475	3,925
Office	59,656	37,217
Loss on disposal of fixed assets	3,602	—
Professional fees	4,000	12,518
Travel	27,934	16,973
Loss before the undernoted	322,059	147,392
Write-down of mineral properties	717,565	—
LOSS FOR THE YEAR	1,039,624	147,392
Deficit at beginning of year	1,153,834	1,006,442
DEFICIT AT END OF YEAR	\$ 2,193,458	\$ 1,153,834
Loss per share	\$ 0.14	\$ 0.02

For the year ended December 31, 1996

	1996	1995
Cash provided by (used in)		
Operating activities		
Loss for the year	\$ (1,039,624)	\$ (147,392)
Items not involving cash		
Write-down of mineral properties	717,565	—
Loss on disposal of fixed assets	3,602	—
Depreciation	2,114	4,859
	(316,343)	(142,533)
Increase in non-cash working capital	(72,368)	(40,885)
	(388,711)	(183,418)
Investing activities		
Mineral property expenditures	(248,076)	(482,198)
Property and equipment	(5,880)	(12,193)
	(253,956)	(494,391)
Financing activities		
Common shares issued for cash	804,003	484,875
Common shares issued for services	30,275	65,532
Common shares issued for mineral properties	31,200	50,000
Proceeds on disposal of fixed assets	4,932	—
Increase (decrease) in due from directors	(12,145)	475
	858,265	600,882
Increase (decrease) in cash	215,598	(76,927)
Cash at beginning of year	8,748	85,675
Cash at end of year	\$ 224,346	\$ 8,748

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 NATURE OF OPERATIONS

The Company's principle business activity is the acquisition and exploration of mineral properties. Recoverability of the costs of mineral properties is dependent upon various factors, including the existence of economically recoverable reserves, the ability to obtain necessary financing to complete development, future profitable operations from the properties, or proceeds of disposition. Pending profitable operations, or disposal of the Company's properties, cash requirements must be provided by existing working capital and debt or equity financing.

2 ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles which in all material respects conform to the international accounting standards.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Apex Valley Resources Inc., and Kilo Distributors Ltd.

Mineral Properties

Acquisition costs of mineral properties together with direct exploration and development expenditures thereon are deferred in the accounts. When production is attained, these costs will be depleted using the unit of production method based upon estimated proven recoverable reserves. When deferred expenditures on individual properties exceed the estimated net realizable value, the properties are written down to the estimated value. Costs relating to abandoned properties are written-off when the decision to abandon is made.

Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the year.

Fixed assets

Fixed assets are recorded at cost. Depreciation expense is computed as follows:

Equipment	straight-line over five years
Computer equipment	30% declining balance

3 MINERAL PROPERTIES

	1996	1995
Kilo Claims	\$ 34,362	\$ 34,362
Apex Valley Claims	200,046	200,046
Trophy Claims	28,905	28,905
Yucca Valley Claims	—	658,108
Sunset Lake Claims (formerly Bear 6 Claims)	175,709	—
Wild Irishman Claims	12,909	—
	<u>\$451,931</u>	<u>\$921,421</u>

Apex Valley Claims

The Company has the rights and options to eighty-three mining claims in the Princeton area of British Columbia, of which eighty-two are subject to option agreements requiring future option payments of \$500 and a 5% net smelter royalty.

Trophy Claims

The Company has the rights to six mining claims in the Bedwell area on Vancouver Island.

Johnson Valley Claims

The Company has rights and options to six claims in the Emerson Lake area of California which are subject to monthly lease payments of U.S. \$2,000 for a term of eight years or a 30% net smelter royalty, whichever is greater. The testing of core samples during the year indicated no economically recoverable reserves. Subsequent to year end, the Company leased further expenditures on the project and entered an agreement with a group led by a former Director to provide use of the production permit should production commence in exchange for a 10% net smelter royalty. Consequently, the capitalized costs were written off to operations.

Sunset Lake Claims (formerly Bear 6 Claims)

The Company has a 25% interest in approximately 2,500 acres staked in the Sunset Lake area of the North West Territories. This is a volcanogenic, polymetallic, massive sulfide prospect.

Wild Irishman Claims

The Company has a 25% interest in several unpatented mining claims located in Grant Co., New Mexico, near the Tyrone open pit copper mine.

Kilo Claims

The Company has rights to 40 claims in the Slocan area of British Columbia.

4 SHARE CAPITAL

Authorized

Unlimited number of common shares without par value

Issued

	<i>Number</i>	<i>Amount</i>
Balance at December 31, 1994	6,248,221	\$ 1,447,398
Issued for cash	554,850	484,875
Issued for mineral properties	50,000	50,000
Issued for services	96,160	65,532
Balance at December 31, 1995	6,949,231	\$ 2,047,805
Issued for cash net of share issue expenses of \$47,202	893,269	804,003
Issued for mineral properties	20,000	31,200
Issued for services	32,475	30,275
Balance at December 31, 1996	7,894,975	\$ 2,913,283

Options to purchase

On December 31, 1996, the following options to purchase 435,000 common shares were outstanding:

<i>Grant Date</i>	<i>Number of Shares</i>	<i>Terms</i>
August 4, 1994	110,000	\$0.64 per share, expiring August 4, 1999
October 18, 1995	205,000	\$0.70 per share, expiring October 18, 2000
April 18, 1996	120,000	\$1.21 per share, expiring April 18, 2001

Warrants

On December 31, 1996, 731,385 warrants were outstanding entitling the holders to purchase common shares under the following terms:»

<i>Grant Date</i>	<i>Number of Shares</i>	<i>Terms</i>
March 6, 1995	224,000	\$1.00 per share, expiring March 6, 1997
February 15, 1996	308,000	\$0.90 per share, expiring February 15, 1997
April 18, 1996	10,000	\$1.65 per share, expiring April 18, 1997
July 31, 1996	189,385	\$1.65 per share, expiring July 31, 1997

5 CONTINGENT LIABILITY

The Company is a defendant in a legal action in the amount of \$575,000 plus interest and costs in respect of an agreement to acquire the Yucca Valley Claims. Management asserts that the agreement was unenforceable and the Company has filed a Statement of Defense and Counterclaim seeking damages in the amount of approximately \$872,000. Management is of the opinion that the legal action against the Company is without merit and no provision for loss has been provided in the accounts. Should any loss result from the resolution of the claim, such loss would be accounted for in the year incurred.

6 NON MONETARY TRANSACTIONS

On February 1, 1996, the Company exchanged 25% of its interest in the Yucca Valley claims for a 25% interest in the Bear 6 property. The transaction was recorded at \$171,949 which represented 25% of the carrying value of the Yucca Valley claims on the transaction date. Accordingly, no gain or loss was recognized in the transaction.

7 INCOME TAXES

The Company has losses of \$870,648 available to reduce future taxable income. These losses are due to expire as follows:

1997	\$ 38,378
1998	59,406
1999	54,573
2000	123,137
2001	136,278
2002	142,533
2003	316,343

\$ 870,648

The Company has also available \$1,568,152 (1995 - \$1,238,469) in its asset pools to reduce future taxable income. No recognition has been given in these financial statements to the potential tax benefits associated with these losses and pool deductions.

8 SUBSEQUENT EVENTS

- (a) On June 30, 1995, the shareholders of the Company approved by a special resolution an option granted to a private company controlled by one of its directors for the development of its existing mining claims in the Province of British Columbia in exchange for 100,000 common shares of the latter and a 25% net smelter royalty convertible to a working interest of 48% after payment by the Company of its proportionate share of development costs.

The Option Agreement was amended on February 23, 1996, to increase the number of common shares to be received to 250,000, to add an expenditure commitment of \$100,000 during the first year of the option and to provide annual extensions of the agreement through issuance of 100,000 common shares at the end of the first year and 50,000 common shares at the end of each of the three succeeding years.

The agreement was subsequently replaced with a new agreement to sell the claims outright in exchange for \$100,000 and 500,000 common shares of which 250,000 common shares will be issued on the date the shares are listed on the Alberta Stock Exchange and 250,000 shares 21 days thereafter. The shares are subject to a three year hold period. The Company also retains a 3% net smelter royalty on the claims.

- (b) Subsequent to year end, the Company issued 201,000 common shares with an ascribed value of \$201,000 as consideration for the Wild Irishman claims and related services.

CORPORATE INFORMATION

DIRECTORS

Thor Gauti
Director
Duncan, British Columbia

Theodor Hennig, C.A.
Vice President, Finance
Secretary/Treasurer
Calgary, Alberta

Thomas E. Kirk
Director, Chairman
Victoria, British Columbia

Landon Ritchey
Director
Kelowna, British Columbia

Marten Rosch
Director
Vimy, Alberta

Peter J. Workum
President
Calgary, Alberta

CORPORATE OFFICE

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Calgary, Alberta
T2P 3S8

TRANSFER AGENT AND REGISTRAR

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T2P 3S8

STOCK EXCHANGE SYMBOL

The Alberta Stock Exchange
Trading Symbol: KGD



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